

Senate Budget & Fiscal Review

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Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

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AGENDA

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CONSENT AGENDA

<u>Item</u>	<u>Description</u>	<u>Page</u>
4130	Health and Human Services Data Center and	
5180	Department of Social Services: Automation	
•	Case Management Information and Payrolling System	3
•	Data Center Project Administrative Overhead	3
•	Data Center Operations Component	4
•	Statewide Automated Welfare System (SAWS)	4
•	SAWS/Welfare Data Tracking Implementation Project	5
5175	Department of Child Support Services	
•	California Automated Child Support System	5

DISCUSSION AGENDA**5180 Department of Social Services: CalWORKs**

• Caseload	8
• Cost of Living Adjustments	8
• Time Limits	9
• Child Care	10
• Community Colleges	11
• Adult Education and Regional Occupational Collaborative Program	12
• Corrections and EDD Reductions	13
• Maintenance of Effort Pressures	14
• County Program Grant	15
• Mental Health/Alcohol and Other Drug Allocation	16
• County Program Grant 5% Holdback	17
• County Incentives	17
• Employment Services	18
• Good Cause, Compliance and Sanction Processes	19
• Inter-County Transfers	20
• Youth Development Service Project	20
• Fraud Incentives	21

CONSENT AGENDA**5180 DEPARTMENT OF SOCIAL SERVICES and
4130 HEALTH AND HUMAN SERVICES DATA CENTER****Case Management Information and Payrolling System (CMIPS)**

The CMIPS system provides case management information and payrolling services for providers of In Home Supportive Services. The subcommittee adopted the CMIPS budget at our March 14 hearing, with a consent reduction of \$376,000 as recommended by the LAO. **The Administration has put forward a spring finance letter with an additional technical correction to remove \$180,000 (\$113,000 General Fund) to reduce fraud prevention activities in 2002-03.** A one-time augmentation was provided in 2001-02 for this purpose; the January budget inadvertently reduced the budget by \$20,000, rather than the full amount.

No issues have been raised about this reduction.

The CMIPS budget included an increase in spending authority for HHSDC to extend 6 limited term positions and associated operating expenses to extend the planning phase of a contract to replace the current system. The subcommittee adopted a reduction of \$376,000 to the spending authority for HHSDC, based on the LAO finding that the funds for the limited term positions in the current year were not removed from the baseline expenditures, and hence new funds are not required. **The spring finance letter reduces the DSS budget by \$175,000 (\$120,000 General Fund) to reflect undoing a similar technical double-budgeting for the operating expenses associated with the positions.**

No issues have been raised about this reduction.**Data Project Administrative Overhead**

The Data Center establishes annually an overhead rate for providing overall support to the five projects it manages for the Department of Social Services. In 2000-01, the rate was 19.45%. Effective 2001-02, the Data Center reduced that overhead rate to 14.47%. The appropriate change was made to some projects but not the others.

The Statewide Fingerprint Imaging System (SFIS) gathers a fingerprint and photo image for applicants for and recipients of CalWORKs. The subcommittee adopted the SFIS budget at our March 14 hearing, with a reduction of \$560,000, based on the analyst's review of the budget. **The spring finance letter reduces the SFIS budget by \$35,000 General Fund to implement the reduction in Data Center overhead rate.**

The Child Welfare Services/Case Management System (CWS/CMS) provides automated case management support to child welfare workers, including adoptions workers. The subcommittee adopted the CWS/CMS budget at our March 14 hearing. **The spring finance letter reduces the CWS/CMS budget by \$118,000 (\$59,000 General Fund) to implement the reduction in Data Center overhead rate.**

In addition, the spring finance letter reduces current year funding by \$146,000 (\$83,000 General Fund) to implement the reduction in Data Center overhead rate, for both SFIS and CWS/CMS.

No issues have been raised about these reductions.

Data Center Operations Component

The Data Center provides departments and agencies within the Health and Human Services Agency support to use electronic data processing resources effectively, efficiently and economically. The Data Center is supported entirely by reimbursements from departments that contract with the data center for services. The operations part of the Data Center provides computer services, telecommunications support, information systems, and training support for departments. Annually, the Data Center submits a BCP that consolidates infrastructure equipment requests. Annually, the Data Center also submits a technical adjustment to their budget that reflects the actual expenditures in prior years. Typically, this has resulted in a reduction of expenditure authority.

The January budget included a \$2.2 million increase in spending authority for equipment to meet consumer needs in the operations part of the Data Center. The LAO withheld a recommendation, pending submission of the spring finance letter adjusting expenditure authority based on actual costs for equipment previously approved. The subcommittee did not act on the spending increase, pending receipt of the spring letter. **The spring finance letter reduces spending authority by \$2.8 million, based on actual previous-year costs.**

There are no issues now with the two requests, resulting in a net reduction of Data Center spending authority by \$600,000

Statewide Automated Welfare System (SAWS)

SAWS is a multi-program automated system that provides support to eligibility determination, benefit computation, benefit delivery, case management and management information for CalWORKs, Food Stamps, Medi-Cal, Foster Care, Refugee Assistance and the County Medical Services program. The system is delivered through a multiple county consortium system that includes four consortia.

The Data Center provides oversight for the four consortia, including review of project documents and budgets, deliverables and risk management. The Data Center assures that state and federal control agency approvals are completed in a timely fashion. The budget includes a total of \$7.1 million for such oversight, no change over the current year. The oversight expenditures include \$2.3 million for consulting services.

The LAO originally recommended that the Data Center budget be reduced by \$2.3 million, as there was no information as to the specific activities and tasks that would require consulting services. The Data Center has since provided detail on the makeup of consultant activities and costs. The LAO now recommends reducing the Data Center

budget by \$807,000. This would provide \$1.3 million for oversight consulting activities, including review of project deliverables on consortium projects; review of county implementation activities on CalWIN/Welfare Case Data System, and technical assessments of LEADER.

- **The Department and Data Center agree to the LAO reduction, providing that the departments have the flexibility to address the most significant risks in utilization of the remaining consulting funds.**

SAWS: Welfare Data Tracking Implementation Project (WDTIP)

The WDTIP project provides counties with the automation required to conform to statewide tracking of time-on-aid requirements mandated by federal and state welfare reform. This tracking allows the state to manage the federal and state time limits in CalWORKs/TANF. Statewide conversion was scheduled to complete by December 31, 2001. County conversion activities are now expected to complete by December 31, 2002. Eight counties are expected to convert by June 30, 2001; the last two (Los Angeles and Stanislaus) will convert before December, 2001. All counties are tracking time on aid, in non-automated form in counties that have not converted to WDTIP.

The spring finance letter reduces costs in DSS by \$2.4 million federal funds in the current year, and increases costs in the budget year by \$1.2 million federal funds, reflecting the delay in county conversion and updated cost estimates for converting data.

The resulting impact on Data Center spending authority is a decrease in the current year of \$3.3 million in spending authority, and a decrease of \$4.8 million in the budget year.

No issues have been raised about this reduction.

5175 DEPARTMENT OF CHILD SUPPORT SERVICES

California Automated Child Support System (CCSAS)

The Department of Child Support Services is partnered with the Franchise Tax Board to establish a single automated tracking and data system for the child support system, called the California Automated Child Support System (CCSAS). California's failure to establish such a system in prior years is responsible for a large and growing federal penalty against federal support for child support collections. While the new data system is under development, counties have transitioned to a limited number of interim, federally approved automation systems, called the Pre-Statewide Interim Systems Management Automated System (PRISM).

The January budget eliminated \$4.4 million from PRISM, reflecting completion of county transitions to the PRISM system. The budget redirect most of these funds for the purpose of developing the programmatic expertise, technical and project management oversight and other project support activities for the CCSAS system.

The subcommittee on April 4 adopted the January budget, modified by an LAO recommendation to reduce the consulting budget by \$542,000, (for a total redirection of \$3.7 million) and approving two positions, to develop in-house capacity to develop the CCSAS system.. The subcommittee also adopted budget bill language requiring the Department to provide a plan for developing staff capacity and technical knowledge to support the new statewide system.

The spring finance letter requests a redirection of \$130,000 (\$44,000 General Fund) and a transfer of one position from the Franchise Tax Board to the Department to establish a CCSAS Project Leader to provide overall leadership for the high risk and complex project. There are no net new costs and no net new positions in this proposal.

No issues have been raised about this proposal. It is consistent with the actions the subcommittee took April 4.

DISCUSSION AGENDA

5180 DEPARTMENT OF SOCIAL SERVICES: CalWORKs

The California Work Opportunity and Responsibility to Kids (CalWORKs) program, California's welfare program, faces a seminal year in its development in the 2002-03 budget year. **The structure of CalWORKs is based on the offering of services to families to facilitate employment, the imposition of time limits for adults to a fixed lifetime eligibility for benefits, and the assurance that the state will provide a safety net for children if their families reach the time limit.**

The CalWORKs program implements the federal Temporary Assistance for Needy Families (TANF) program in California. CalWORKs (and TANF) replaced the Aid to Families with Dependent Children program, and was implemented in California on January 1, 1998. The program provides cash grants and welfare-to-work services to families whose incomes are not sufficient to meet basic needs for food, clothing, and shelter.

Characteristics of CalWORKs include time limits on the period a family can receive welfare-to-work services and time limits on the period a family can receive cash grants (generally, a 60 month lifetime limit on the receipt of cash aid). Families are required to meet requirements for participation in preparation for work, and work, in order to continue to receive assistance. Families are also generally required to prove that children are in school, and other requirements. CalWORKs was designed to be county-administered, with counties permitted to develop employment preparation and family support programs that reflect local conditions, including labor market information and the availability of other services to meet CalWORKs family needs.

Federal TANF law will expire in 2002, and Congress must act to reauthorize the program. Congress could potentially reduce the amount of TANF block grant funds available to states, based on caseload reductions in the program. However, there are strong arguments from the states that the national recession requires that the federal government continue to make available at least the current level of TANF funding. Increased work requirements and special programs to encourage family building are also a possibility in reauthorization.

CalWORKs is funded through a federal TANF block grant amount of \$3.7 billion. This amount must be matched with a state share (MOE) of \$2.7 billion. The state share is based on historic spending on welfare in 1994, with downward adjustments if certain work participation goals are achieved.

Attached find a chart showing current year expenditures and proposed expenditures to meet the TANF and MOE requirements. Budgets in recent years have spent funds above the TANF and MOE total, as the state spent down a substantial accumulated unexpended balance. By the budget year, the unexpended balance is gone,

and some of the elements of California's plan have exceeded expectations. Some of the related programs funded through CalWORKs, like KinGAP, have grown significantly since CalWORKs began. In other cases, the success of CalWORKs has created new expectations. For example, California's rate of employment for recipients and recent recipients has exceeded the national expectation. As a result, child care costs have grown significantly each year.

Caseload

Caseloads for AFDC, the predecessor of CalWORKs, grew, in some years substantially, through 1993-94. At that time, caseload began to fall, at a peak drop of 13.1% in 1997-98. Caseload declines have continued through the current year, with a drop of 2.6% forecast for the current year. **The caseload is estimated to grow by 1.6% in the budget year. Estimated caseload for the budget year would be 523,375.** Most of the caseload (470,737) is comprised of All Other Families (one-parent and child-only cases); the balance are two-parent families. Included within the category All Other Families are Child Only cases. This category has grown under CalWORKs: it includes cases with undocumented immigrant adults; with non-needy caretaker relatives; with disabled parents aided through SSI/SSP; with adults who are removed from aid as a sanction for failure to participate; and cases where the adult has reached the time limit.

California has approximately the same proportion of cases composed only of children (34%) as the rest of the nation (33%). A greater proportion in California include citizen children with ineligible non-citizen parents. A great proportion (16%) consist of one or more sanctioned adults (7% nationwide).

The Department and the California Budget Project have both done studies of welfare leavers.

- **The Department and the Budget Project will do brief summaries of their findings concerning individuals who have left welfare.**
- **The May Revision will update caseload projections.**

Cost of Living Adjustments

Current law requires that a cost-of-living adjustment be made to the CalWORKs aid payment, based on the change in the California Necessities Index each year. Beginning in 2000-01, the change based on the COLA is made October 1 of each year. The budget therefore reflects paying the current year COLA at 5.31% for a full year. **The budget proposes to make no COLA adjustment for 2002-03.**

The CNI for the budget year will be 3.74%. **The cost of providing a Cost of Living adjustment for CalWORKs recipients would be \$112 million from TANF/MOE funds.**

A family of three currently receives \$679/month in the high-cost regions of the state, and \$647/month in low cost regions. The COLA would provide each family an increase of \$25/month in the high cost regions, and \$24/month in the low cost regions.

- **Should the subcommittee adopt the proposal to eliminate a COLA for CalWORKs participants in the budget year?**

Time Limits

TANF established a lifetime limit on federal assistance of 60 months. Some households, with an individual who has received a cumulative total of 60 months of assistance beginning in December 1996, are reaching the federal limit in the current year. California began CalWORKs 13 months after the start of TANF. As a result, all families who have reached the federal time limit will continue to receive CalWORKs assistance payments until they reach the state's 60 month limit. The payments to these households are paid with state-only funds, but the payments are counted as part of the state's Maintenance of Effort requirements.

The federal limit only affects payments to single parents in California. Two-parent families have already been shifted to a state-only program in order to assure that California meets federal performance measures for the TANF program. Up to 20% of the CalWORKs caseload can be exempted from the TANF time limit because of a hardship, such as being determined unable to work.

When a family reaches the California time limit, the adult is removed from the family cash grant, and the grant is correspondingly reduced. However, the children remain eligible for assistance, provided with state-only funds. These payments are also MOE eligible.

The budget estimates that approximately 72,000 ~~persons on average per month~~ cases had reached the 60-month federal time limit in the current year; that number will drop to 67,000 in the budget year. The cost shift from federal funds to state funds within the CalWORKs program for grants and services for federal time limited cases are approximately \$788 million, including grants, services, administration and child care in the budget year. The budget further estimates that approximately 98,000 ~~persons~~ cases will reach the state time limit in the budget year. This results in savings of approximately \$223 million in the budget year, including grants, services, administration and child care.

The Department was required in the current year budget to report by 2/1/02 on the characteristics of families reaching the federal time limit and the state time limit. The report has not been received, but the Department is prepared to summarize the findings in the report.

- **The Department will report on families reaching federal and state time limits.**

The LAO has indicated that two issues in current law governing time limits are unclear. They include (1) how counties should apply exemptions from the time limit; and (2) the circumstances under which services may be provided after an individual reaches the time limit.

- **The LAO will present their analysis and proposals**
- **The subcommittee will determine whether these issues should be addressed in the budget.**

Child Care

The CalWORKs program provides child care to participants that are working or engaged in employment preparation programs. The CalWORKs child care system includes three stages:

- Stage 1, provides care when a participant enters CalWORKs, and the funds are administered by county welfare departments;
- Stage 2, provides care to participants once the participant's situation is stable, as defined by the county welfare department, and as long as two years after the participant leaves cash aid; the funds are administered by the Department of Education.
- Stage 3, provides care to former CalWORKs recipients, as part of the larger General Child Care system. This system is also administered by the Department of Education.

Beginning in 1997, the Legislature created a set-aside in General Child Care in Stage 3, to assure that former CalWORKs recipients receive care as long as they are working or in school and remain income and otherwise eligible for child care.

Child care expenditures for CalWORKs recipients have grown substantially, as CalWORKs succeeds in getting adults to work and keeping them there. The Governor proposed in the January budget to make significant reforms to child care, including the child care provided under CalWORKs, that have the combined effect of significantly reducing the amount of funds needed. As initially proposed, the reforms would reduce income eligibility limits, reduce reimbursement rates for providers, implement fees for virtually all recipients of child care, implement increased fees for those currently paying fees, and eliminate eligibility for 13-year-old children. The child care reforms would have resulted in savings of approximately \$400 million. The January budget proposed to use these funds to create new subsidized child care that would be available for all low income families.

The specific CalWORKs impact of the proposed reform was to reduce anticipated expenditures for child care under CalWORKs by a total of \$183 million (\$50 million of Stage 1 and \$133 million of Stage 2). The savings were principally from higher

family fees, lower provider reimbursement rates, and approximately 6,000 of Stage 2 families losing eligibility. In addition, the proposal would have eliminated the Stage 3 set-aside by March of 2003, eliminating the guarantee that former CalWORKs participants would receive assistance as long as they remained income eligible.

The Administration has withdrawn the specific child care reform proposal contained in the January budget. The Administration has commissioned a stakeholders group, and has begun efforts to develop a revised proposal for the May Revision.

The primary discussion of reform proposals that will effect child care will take place in Subcommittee #1, as part of the broader child care budget. That subcommittee, in addition to the challenges of the reform, will consider **whether to continue to provide a Stage 3 set-aside, and how to fund that set-aside. The estimate now is that the cost of a continued Stage 3 set-aside would be \$110 million in the budget year.**

The challenge to the CalWORKs budget, however is two-fold. On the one hand, since the Governor proposed to transfer savings from the child care reforms to general child care, **the budget continues to include \$400 million of child care funds, including \$183 million from savings in the CalWORKs system.** The continued proposed use of those funds in child care would permit the Legislature to postpone consideration of the child care reforms to a policy setting, putting the 'savings' back into child care programs currently operating. On the other hand, CalWORKs is currently funded at the TANF/MOE level. If the reforms are not adopted, it will be necessary to find a way to fully fund Stage 1 and 2 child care within CalWORKs.

The Assembly Budget Subcommittee has taken action to restore the child care budget to reflect a continuation of the current year's child care policy. They further have directed staff to identify a way to find savings for a continuation of Stage 3 in the budget year, and requested that all recommendations be completed by May 8.

- **Should the subcommittee restore \$183 million to Stages 1 and 2 child care in CalWORKs?**

Community Colleges

The budget, as one of several actions to bring CalWORKs expenditures within the federal minimum funding amount, has eliminated \$50 million of General Fund/Proposition 98 and \$8 million match to TANF funds, provided in past years to provide community college services to CalWORKs recipients. The budget retains \$15 million for child care expenditures for CalWORKs recipients enrolled in community college, and continues to pass through \$8 million in TANF funds to the community colleges.

These funds have been used by the community college system to fund fixed, variable and onetime costs for providing support services and instruction for CalWORKs students, including job placement and coordination; curriculum development and redesign; child care and work study; and instruction. The community college system has produced an

annual report, since 1997-98, on the conduct of its CalWORKs program. Their most recent report found that the community college system served 108,000 students in 1999-00. At the same time, the specific CalWORKs programs on all 108 college campuses served 47,000 students annually with direct services. This represents an increase of 73% since the beginning of welfare reform. The majority of the students served in programs were self-referred (27,600). The largest share of the community college CalWORKs funds are used for work study (paying up to 75% of the wage) and child care. By 2000-01, none was spent on instruction; a small amount was spent on curriculum development to provide instruction that meets the educational and timeline needs of CalWORKs recipients. Some was spent on coordination with other agencies serving CalWORKs participants.

The Community College Chancellor's office has recently completed a study of outcomes for CalWORKs recipients. They have found that CalWORKs students increase their earnings substantially after exiting and increase their steady employment after exiting.

- **Should the subcommittee adopt the proposed reduction in community college funding?**

Adult Education and ROC/P

The budget, as one of several actions to bring CalWORKs expenditures within the federal minimum funding amount, has eliminated \$36 million of General Fund/Proposition 98 funds, provided for several years for Adult Education and Regional Occupational Collaborative Program (ROCP) services for CalWORKs recipients. \$10 million in TANF pass-through funds are retained in the Adult Education/ROCP budget. These \$46 million in funds have been used by the Department of Education to provide both instructional services above the Adult Education cap, and support services for students in adult education programs both over and under the cap. ROCP programs serve CalWORKs students where space is available after services to students under 18. Funding is prioritized at the local level by a joint planning process including Adult Education, ROCP and welfare departments.

The Department of Education reports that in 2000-01, the program served 18,500 average daily attendance served with these funds. This ADA count translates to a larger number of actual students: a total of 53,000 were served by the system and reported to the Performance Based Accountability system (these are students served who are willing to consent to reporting their data). The average student has 10 years prior education; 58% don't function at a high school level academically. Most have a long history of failing in school. A large number of these students are receiving basic literacy and English as a Second Language services.

The Department of Education has identified funds from previous years that could be used to partially restore this program for the budget year. The unexpended funds include funds from the basic adult education budget, and funds from previous year's CalWORKs Adult Education/ROCP budgets. Senate Budget Subcommittee #1 is considering a

proposal to partially restore funds for the Adult Education and ROCP portions of the program. The proposal would include funds for Adult Education instructional services above the cap, support services for participants, and ROCP program funding where space is available. The proposal assumes that the \$10 million in TANF pass-through funding would continue to be provided. Subcommittee #1 suggests that our subcommittee is the appropriate place to discuss whether their restoration creates a CalWORKs MOE problem.

- **Should the subcommittee adopt the reduction in Adult Education services for CalWORKs participants?**

Corrections and EDD Reductions

The CalWORKs budget has since 1997-98 included a TANF transfer to EDD and a matching amount of EDD funds, for use in EDD's Intensive Services Program. This program provides case management, and more intensive support to hard to serve individuals seeking work. CalWORKs participants are automatically eligible, and EDD case managers have a goal of serving 80% CalWORKs recipients. The balance of their services go to other job seekers with multiple barriers to employment. In the current year, \$3.6 million was provided from TANF funds; EDD provided a \$3.6 million match from EDD funds.

EDD projects that it will serve 32,000 individuals with the Intensive Services program. Based on a study completed in 99/00, EDD estimates that 50% of the individuals served will still be employed one year after receiving services.

The proposed budget eliminates the \$3.6 million match from EDD. The subcommittee adopted this reduction in the EDD budget. In addition, the subcommittee eliminated the \$3.6 million in TANF funds from the EDD budget, intending to use these funds for higher priority purposes within the CalWORKs budget.

The CalWORKs budget has for several years used expenditures in the California Department of Corrections for two women's program as MOE expenditures. These include the Female Offenders Treatment and Employment Program, that provides residential treatment for women offenders and their children after release from prison. And they include the Family Foundation Program, which provides 12-month residential treatment and then a 12-month intensive aftercare program rather than going into prison. This program is for women who are pregnant or have children under six years of age.

The budget eliminates \$2.5 million in expenditures for CalWORKs-eligible families by the Department of Corrections from MOE. The programs continue to be funded with Governor's discretionary WIA funding.

- **Should the subcommittee adopt the reductions proposed in the Governor's budget for EDD and Corrections?**
- **Should the subcommittee remove an additional \$3.6 million in TANF funds from EDD?**

Maintenance of Effort Pressures

As indicated above, the federal government requires, as a condition of receiving TANF funds, that California provide a minimum level of General Fund support for program serving CalWORKs participants and other low income households potentially eligible for CalWORKs. California's MOE is \$2.7 billion per year, as long as the state meets federal performance measures. The CalWORKs program expectations have grown substantially: in part because all counties are now operating fully; in part because successful placement of CalWORKs participants in employment has increased the demand for child care; in part because programs funded with TANF money in the early years have grown in caseload and cost.

The CalWORKs program can be provided only with great difficulty within the TANF MOE limits in the budget year. The Governor's proposed budget was able to remain within the limit only by withholding a COLA for participants, by removing \$100 million in funds for other departments from CalWORKs (community college, adult education, EDD and corrections funding), and by making substantial reductions in child care for CalWORKs participants.

If the Legislature intends to change any of these proposals (restore a COLA, for instance, or provide full funding for child care), it will need to find the funds to do so, and to create space within the TANF/MOE limit, or spend funds above the MOE limit.

One possibility for constructing a CalWORKs program within the TANF/MOE framework would be to move programs that are not directly connected to CalWORKs outside the CalWORKs framework. For example, the state has funded Emergency Assistance/Foster Care programs with TANF funds, avoiding expenditures that would otherwise be General Fund. The proposed budget spends \$45.5 million for this purpose. The state has funded KinGAP with TANF funds, thereby creating other General Fund savings. The proposed budget spends \$68.9 million in TANF funds for this purpose. The state has funded Child Welfare Services with \$202.6 million in TANF funds, avoiding expenditures that would otherwise be General Fund. Any of these programs could be moved outside the CalWORKs framework. Or, all these programs could be capped at current year levels, which would have the effect of not making the problem worse.

- **Should the subcommittee consider moving any of these programs outside the CalWORKs framework? Or capping their use of TANF funds?**
-

County Program Grant

Currently, the state provides counties a “Single Allocation”, that includes funding for Stage 1 Child Care, CalWORKs Employment Services, and CalWORKs program administrative costs. Counties can currently shift funds between these three different activities, as long as they remain within the overall amount of their Single Allocation. Moreover, in years past, the state has recaptured unspent Single Allocation funds and redistributed them to counties that have spent more than provided.

The budget this year proposes to suspend the Proposed County Administrative Budget (PCAB) process that determines an adequate level of administrative and employment services funding needs under CalWORKs. The budget proposes to compensate for the shift from a needs-based budgeting methodology to a capped distribution based on historical spending, by expanding county flexibility by providing counties with a “County Program Grant” that includes the funds currently in the Single Allocation, plus the allocations currently provided through the CalWORKs Mental Health, CalWORKs Substance Abuse and the Juvenile Assessment/Treatment Facilities and Probation Camps funding. Counties would be provided with authority to shift funds within these allocations to meet local needs. **The LAO has proposed that the County Program Grant could be expanded with an additional \$44 million by including funding from EDD, teen pregnancy prevention, and community college services provided through TANF funds.**

The budget includes \$109.2 million of employment services funds to support treatment for CalWORKs participants with mental health and alcohol and other drug problems. Funds have been set aside within the Employment Services budget annually for such purposes under CalWORKs. County welfare departments are required to work with county mental health and alcohol and drug programs to design and implement effective ways to provide the services needed to assure that CalWORKs participants are able to get and keep employment. County welfare departments are also required to provide domestic violence treatment services where needed. No set-aside of funds is provided for domestic violence.

The mental health and alcohol and drug programs have developed slowly, and now are anticipated to fully spend the set-aside amounts. **The budget proposes that the set-aside for mental health and alcohol and drug services be included in the larger County Program Grant,** and that county welfare departments be given authority to transfer funding to higher priorities.

When California’s CalWORKs program was developed, it was anticipated that the mental health portion of these funds, at least, would be used to draw down federal Medicaid matching funds, where appropriate. Federal regulations that prohibit the use of funds that match Medicaid being used to match TANF funds stopped this proposal. California does not have a difficulty today meeting its MOE requirement. In fact, in some counties the need for mental health services has exceeded the capacity of the set-aside, and counties have used Single Allocation funds to supplement the set-aside. The Legislature could

consider allowing counties the flexibility to maximize federal Medicaid match, where appropriate. Counties have argued that retaining some non-Medicaid set-aside is important. Funds have been used to provide non-Medi-Cal reimbursable services. For example, outreach to CalWORKs participants and parenting education are not Medi-Cal services, but have been important to some participants. In addition, services that are provided more extensively than the medical necessity criteria under Medi-Cal would normally permit have been used to assure that participants are work-ready.

Drug Medi-Cal provides a much more restricted benefit, geographically and in terms of treatment services provided. It seems less likely that Drug Medi-Cal could be used to claim federal matching funds for services to CalWORKs participants.

The CalWORKs budget has also included \$201.4 million for County Probation Facilities. These funds were initially 'earned' by the state from AFDC funds used for services to probation youth. **The budget proposes that the Probation Facilities set-aside be included in the larger County Program Grant**, and that county welfare departments be given authority to transfer funding to higher priorities.

- **Should the subcommittee adopt the County Program Grant?**
- **Should the County Program Grant be expanded to include other TANF-funded elements?**
- **Should the subcommittee consider setting aside a portion of the Mental Health set-aside outside the CalWORKs framework to be used to claim federal funds?**

Mental Health/Alcohol and Other Drug Allocation

The current year budget required a report on the amount of funding provided for participants who have suffered from domestic violence. **The report has been completed and is under review; the Department anticipates that the report will be released by May.**

The budget has historically included budget bill language requiring that the Department provide semi-annual reports on the amount spent by counties on substance abuse and mental health treatment services for CalWORKs recipients, and the number of recipients receiving these services. This language was removed in the proposed budget.

The county associations involved with delivering these services (County Welfare Directors Association, California Mental Health Directors Association, County Alcohol and Drug Program Administrators Association of California), have established a working group to develop research and best practice guidelines for counties providing mental health, substance abuse and domestic violence services. The three associations are concerned that the state has no outcome measures specific to these services. They are seeking permission to utilize \$100,000 of the allocation for 2 or 3 counties to develop an outcome system that could be replicated in all counties.

- **Should the subcommittee restore the reporting language for mental health and substance abuse funds?**
- **Should the subcommittee support the outcome proposal?**
- **The subcommittee will anticipate receiving the domestic violence report by the May Open Issues hearing.**

County Program Grant 5% Holdback

The CalWORKs program has traditionally had a reserve, large in the initial years, of unspent federal TANF funds. These reserves were largely related to the fact that the improving economy began a reduction in caseload before the state and counties initiated the services required by CalWORKs. The CalWORKs budget is now fully at the federal minimum levels, and no reserve is contemplated. Instead, the Budget Bill includes language that would hold back 5% of the County Single Allocation/Program Grant. These funds would be used to protect the state's risk of unexpected costs from caseload increases in CalWORKs and KinGAP, and other unanticipated costs. In other words, the state proposes to hold back services funds in order to create a reserve for aid payments.

The LAO notes that a hold back provision would result in a lower level of services at the county level, since county planning efforts will of necessity be focused on the amount of funds actually available. This could result in a reduction of up to \$95 million in services funds.

- **The LAO will testify on the program impact of the hold back provision.**
- **Should the subcommittee adopt the 5% holdback provision in the budget?**

County Incentives

CalWORKs statute provided that savings resulting from exits due to employment, increasing earnings, and diverting potential recipients, would be paid to counties as performance incentives. In 2000, the law was changed to make performance incentives subject to annual budget act appropriations. By 99-00, counties had earned \$1.2 billion in performance incentives, and had been paid \$1.1 billion. In 2001-02, the Legislature provided \$20 million as payment towards the unpaid obligation.

Counties have spent a small proportion of their incentives: the budget estimates that counties will have \$600 million in unspent incentive funds available in the budget year. The federal government requires that the state consider these funds as obligated only if they will be spent in the budget year. Many counties, however, have made extensive community plans for use of incentive funds for such things as post-employment services, and support services to divert low income families from needing assistance.

The budget proposes to redirect the \$20 million from the current year, and to recapture \$169 additional payments owed to counties from past incentives to be used for other purposes in the budget year. The budget proposes then to reallocate the remaining incentive funds, or \$431 million, to counties as performance incentive funds. This would increase the obligation to counties for prior year incentives to \$266 million.

The counties have proposed to use some of these incentive funds to address funding needs under Employment Services (see next section).

- **Should the subcommittee adopt the budget proposal to recapture incentive funds?**

Employment Services

The Department has suspended the procedure for estimating county needs for the Single Allocation this year, making it difficult to estimate the extent to which holding counties at prior year levels affects their capacity to meet the requirements of CalWORKs. Prior to this year's budget process, however, **the LAO estimated that county Employment Services was at least \$125 million short of full funding in 2001-02 to provide needed administration, assessment, and employment services to CalWORKs participants**, using a conservative assessment based on actual county experience. As a result, many counties will not receive funds sufficient to meet their obligations. Counties that were slow to initiate full CalWORKs programs are especially hard hit by this limitation on funding.

In the current year, the Legislature required that the Department identify all unspent CalWORKs funds available at the end of last year, and reallocate to 'under-equity' counties in proportion to their need. \$39 million was identified (from unspent funds from the Single Allocation) and allocated to six counties. The budget proposes no similar readjustment. **Counties have proposed a method for reallocation of funds that would provide \$145 million to add to the Single Allocation/County Program Grant (see attachment).**

The budget has for several years transferred funds from the Employment Training Fund to CalWORKs to offset the cost of providing employment services. These funds have offset the TANF funds, and provided a MOE amount to CalWORKs. Last year, the budget included \$30 million of ongoing funds, and an additional \$31 million 'fund sweep' in accumulated reserves from the Employment Training Fund. **This year, the budget proposes to transfer \$30 million in ongoing funds from the Employment Training Fund to CalWORKs.**

TANF is in the process of being reauthorized at the federal level. This reauthorization will potentially include significant changes to the program. One issue that has raised concern among most states is a proposal by the Bush administration to significantly increase expectations for the percentage of recipients who are working, and the amount of

work hours each adult is required to perform. Among other impacts, an increase in work hours has the potential to increase child care costs, and to require more intensive services for households with significant barriers.

California's one-parent families now participate in TANF requirements (32 hours/week) at the rate of 27.50%. 2-parent families participate at the rate of 47.70%. An additional 14.10% of one-parent families participate but do not meet the full hourly requirement. An additional 28.00% of 2-parent families participate but do not meet the hourly requirement.

Proposals for meeting potential federal challenges include increasing the extent to which families can meet work requirements through education or training activities; or acknowledging the partial meeting of requirements. In general, proposals for restructuring CalWORKs in a significant way will receive further review next year when the terms of the federal reauthorization are clear.

The LAO has generally expressed concern about the pressures facing the CalWORKs budget. For future years, the Legislature should establish its priorities regarding the level of General Fund support for CalWORKs, the relative importance of income maintenance versus employment services, and inequities in funding employment services.

- **The LAO should present a summary of the state's participation requirements.**
- **Should the subcommittee adopt the CWDA proposal to reallocate Employment Services funds?**
- **Should the subcommittee adopt the transfer from the Employment Training Fund?**
- **Should the subcommittee establish a process for reviewing the policy issues in CalWORKs?**

Good Cause, Compliance and Sanction Processes

Budget Act language in 2000-01 required the Department to report on the rates of good cause establishment and curing of sanctions in the CalWORKs program. The language also required the Department to include recommendations for improving these current processes.

Federal law provides considerable flexibility to states to define what constitutes non-compliance, the severity of the sanction, and the appeals process to restore benefits. California levies an adult-only sanction, where the adult portion of the grant is removed when the adult is not compliant, but children continue to receive assistance. CalWORKs adult recipient, unless exempt, must participate in welfare to work activities, and meet program requirements. In most cases, this translates to working at least 32 hours per week for one-parent households; 35 hours per week for two-parent families. Adults may be exempted for 'good cause', such as the unavailability of child care, or a temporary illness.

The study found that most reasons for good cause exemptions included illness of self or family member; or lack of transportation. Approximately 3% of the caseload fell into this category. 75% of counties and all legal advocates who participated in the system believe that changes must be made to the methods currently used to establish good cause. The study found that all counties have a procedure in place to encourage participation by non-compliant individuals. Again, most counties and all legal advocates believe that the compliance services could be improved. Some counties were unable to provide complete data on the number of sanctions imposed or the number of sanctions cured. Virtually all the study participants believe that greater clarification is needed concerning procedures for curing sanctions.

The Department recommended that a work group be convened to develop improvements to the good cause, compliance and sanction procedures. In addition, the Department intended to issue an All County Letter to reiterate sanction procedures.

- **The Department will report on the status of implementing the recommendations in the report.**

Inter-County Transfers

The budget of 2000 required that the Department prepare and submit a report to the legislature containing findings and recommendations concerning the CalWORKs Inter-County Transfer process for recipients.

The Department found in its study that approximately 2.4% of the CalWORKs caseload moved to another county one or more times in 1999. Welfare departments believe that the transfer process is cumbersome and inefficient: transfer of records is slow and inefficient, and transferring the case is sometimes delayed. Advocates believe that counties sometimes treat transfers unfairly, and that the responsibility for a smooth continuation should be placed on counties.

The report recommended that current regulations should be strengthened to assure eligibility determinations are appropriate; an abbreviated application form should be developed; and proper transfer procedures should be reiterated to all counties.

- **The Department will report on the status of implementing the recommendations in the report.**

Youth Development Service Project

Beginning in 2001, the Department provided \$1.5 million in TANF funds to local community based organizations, primarily Boys' and Girls' Clubs, for direct prevention services to youth. These services, including training and recreation activities, are aimed at reducing the rate of teen pregnancy.

The Department reports that over 4,800 young people have been served through this funding. The funding helps the Clubs provide drug, alcohol and pregnancy prevention services to young people aged 6-15. In addition, a portion of these funds helped the clubs form a statewide alliance of Boys' and Girls' clubs.

- **Given the difficulties within the CalWORKs budget, is this funding still a priority?**

Fraud Incentives

The budget eliminates \$5.1 million in general Fund incentive payments for fraud detection by counties. Counties would continue to receive \$5.1 million in federal TANF funds for fraud detection incentive payments. The funds are provided to counties based on the percentage of the total overpayments in the state that the county recouped through fraud activities. The fraud incentive effort was responsible for \$59.4 million in overpayment collections last year. The Department does not believe that the reduction in incentives will alter county administration of fraud detection law. The Assembly took the federal \$5.1 million as well as adopting the proposed reduction of state funds.

Should the subcommittee adopt the reduction in fraud detection incentives?
